HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA

CANADA MORTGAGE AND HOUSING CORPORATION

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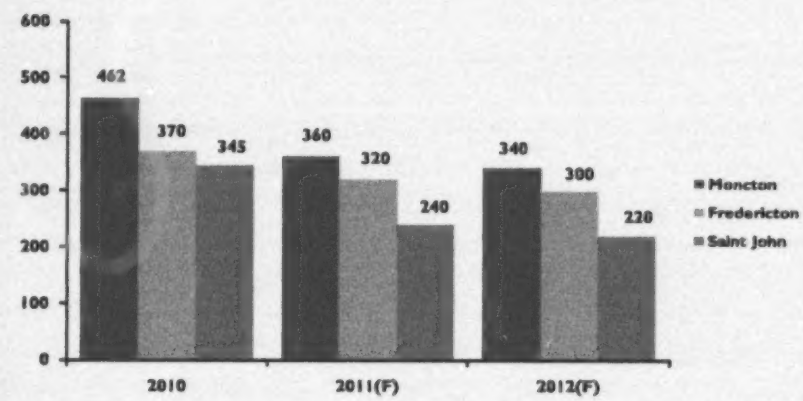
Job Market to Impact Housing Demand

Economic growth in New Brunswick is expected to remain weak in 2012. This is, in part, the result of a soft outlook for large-scale private sector investment for the upcoming year. In addition, the provincial government is expected to continue its current course of fiscal restraint and deficit reduction. As a result, public sector expenditures are likely to fall below recent levels for 2012.

Throughout 2011, growth in New Brunswick's natural resource sector has been limited by a lingering downturn in the demand for commodities. Continued weakness in the United States' housing market has resulted in historically low

Figure 1

Single Starts - Moncton, Fredericton and Saint John



Source : CMHC

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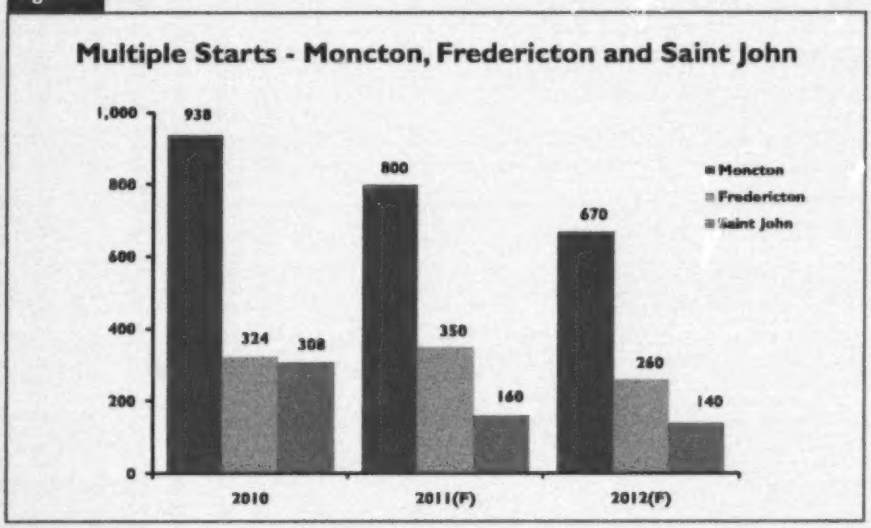
Figure 2



Source : CMHC

lumber prices and reduced demand for value-added forestry products. Traditionally, the forestry sector has been a mainstay in New Brunswick's economy as significant quantities of lumber and other forest products were shipped to the United States, the province's largest trading partner. The current strength of the Canadian dollar will continue to negatively impact export activity in a variety of sectors extending beyond natural resources, such as the manufacturing, trade and transportation sectors.

The energy sector emerged as a dominant economic driver in New Brunswick during the past decade, particularly in the Saint John area. With no imminent plans for significant expansion, however, the energy sector will have minimal impact in terms of generating new economic growth in the province over the forecast period.

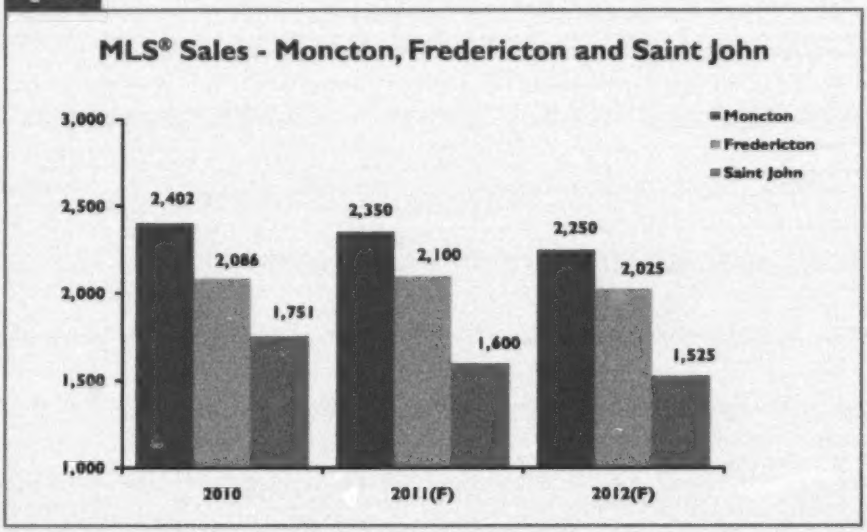
After reaching its peak in 2009, total employment in New Brunswick posted a moderate decline in 2010, establishing a trend that has extended into 2011. Fewer full-time jobs have led to this overall decline. As of August this year, part-time employment was on pace to equal or surpass the record number set in 2009. Among the province's three large urban centres, the job market in Fredericton, the provincial capital, has been relatively stable as the large public sector workforce, combined with stable service and retail sectors, has remained steady. Conversely, in both Moncton and Saint John, a decline in overall employment has been marked by fewer full-time jobs in the service, trade and transportation sectors.

Provincially, employment levels are expected to decline in both 2011 and 2012. The subsequent impact of reduced employment levels will be felt in the housing market over the forecast period. Provincial housing starts are expected to reach 3,200 units in 2011, down from 4,102 in 2010, followed by a decline to 2,785 units in 2012.

Motgage Rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest

Figure 3



Source : Canadian Real Estate Association (CREA), CMHC Forecast
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rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Residential Construction to Decline

Residential construction activity in Greater Moncton, the province's largest housing market, is expected to decline in both 2011 and 2012. Last year, housing starts were well above the annual average recorded over the past decade, due in part, to the significant expansion of the local rental market. Growth in the rental market has continued during the first three quarters of 2011, with year-over-year increases in apartment starts as of the end of September. In 2010, over 40 per cent of apartment starts in Greater Moncton were recorded in the fourth quarter. This performance is not expected to be repeated during the last three months of 2011. As a result, expect a mild decline in apartment starts by the end of this year, followed by a further reduction in 2012 as built up inventory is absorbed.

Throughout most of 2011, the semi-detached market in Greater Moncton has gradually recovered from an over-supply situation that peaked in 2009. At that time, the monthly average number of new, unabsorbed units exceeded 70. This year, the monthly average number for new, unabsorbed units to the end of August was slightly above 20 units and has been trending down every month of this year. Despite the lower inventory, semi-detached starts have nearly matched the pace set last year, indicating solid demand for these units. While semi-detached units are expected to remain popular in the Greater Moncton market, an overall decline in demand for new homes will lead to fewer semi-detached starts in both 2011 and 2012.

Demand for single-detached homes has grown weaker in Greater Moncton in 2011, partly due to the widening gap between the cost of a new home and the average price of existing homes on the resale market. Furthermore, the inventory of existing homes, which remains at historically high levels, has provided multiple choices to potential home owners, luring many to the resale market. Look for single starts to decline to 360 units in 2011, followed by a modest decline to 340 units in 2012.

In Saint John, new home construction activity has declined significantly in 2011, following a five year period when housing starts were well above the average annual level recorded during the previous two decades. In the first half of the most recent decade, the new home market in Saint John was buoyed by construction activity linked to the expansion of the local energy sector and subsequent speculation regarding the potential for new projects. Housing starts peaked in 2008, with the highest number of total starts recorded since 1988. Starts have been trending down since 2008 as current economic conditions have muted the expansion of the local energy sector and reduced the level of in-migration relative to the province's other two large urban areas. These factors have already resulted in a rising vacancy rate, which will in turn lead to a significant decline in apartment starts in 2011 compared to last year's level. As a result, expect a decline in total multiple starts over the forecast period. Single starts are expected to decline to 240 units in 2011, followed by a moderate decline in 2012.

In 2011, residential construction activity in New Brunswick's capital region has been bolstered by significant gains in the construction of multi-unit dwellings. Last fall, Fredericton matched the lowest vacancy rate in the province at 2.6 per cent. The vacancy rate did not increase significantly even though apartment starts in the region were above the ten-year average. The pace of development in this market segment has not decelerated in 2011 with apartment starts exceeding last year's annual total after the first nine months of this year. In the near term, the provincial government's focus on fiscal restraint has the potential to dampen in-migration to the provincial capital region. For these reasons, apartment unit construction is expected to decline in 2012. Single starts are expected to remain relatively stable over the forecast period, with starts expected to reach 320 and 300 units in 2011 and 2012, respectively.

Fewer MLS® Sales Expected in Large Urban Centres

During the first three quarters of 2011, Greater Moncton posted the highest volume of MLS® sales in the province, with a moderate year-over-year increase in MLS® sales to the end of September. For 2011, overall MLS® sales activity in Greater Moncton is expected to remain stable. There is,

however, potential for a small decline in sales by the end of this year. Looking forward, a decline in MLS® sales ranging between two and four per cent is anticipated in 2012 as a softer job market impacts the demand for existing homes. The lack of significant growth in MLS® sales and ample listings will limit price growth to less than three per cent over the forecast period. For 2011 and 2012, expect the average MLS® sale price to reach $157,500 and $160,500, respectively.

Since the start of the year, demand for existing homes has been relatively weak in Saint John, resulting in a year-over-year decline in MLS® sales. The current downward trend in MLS® sales began after the record high was set in 2007 and is expected to continue to the end of this year and into 2012. MLS® sales are expected to reach 1,600 units in 2011, with a subsequent decline to 1,525 units in 2012. The year-over-year decline in MLS® sales recorded in 2011 has muted price growth. At the end of September, the average MLS® sales price was essentially unchanged from last year's total. With reduced sales expected in 2012, price growth will again be limited.

In Fredericton, the number of MLS® sales recorded during the first three quarters of this year was slightly ahead of last year's pace for the same period. This trend, however, is not expected to be maintained in 2012, as softening demand for existing homes, particularly in the higher price ranges, is expected to lead to fewer MLS® sales. The solid demand observed in 2011 has helped maintain an upward trend in the average MLS® sale price, a trend that is expected to extend into 2012. In light of weakening demand, however, price growth will be more modest over the forecast period. The average MLS® sale price is expected to reach $172,000 and $175,500 in 2011 and 2012, respectively.

Vacancy Rates to Rise in Some Provincial Centres

In relative terms, apartment starts in Greater Moncton have been strong in 2011. In light of the significant expansion of the local rental universe resulting from last year's construction season, there will be significant upward pressure on the local vacancy rate over the forecast period. As a result, expect the local vacancy rate to rise from last fall's rate of 4.2 per cent and range between 4.8 and 5.2 per cent.

The vacancy rate is expected to rise in Saint John, due, in part, to out-migration. Expect the vacancy rate to range between 5.4 and 5.8 per cent in 2011. Limited construction activity this year, and the modest expansion of the local rental universe, will subsequently lead to a slightly lower vacancy rate in 2012.

In Fredericton, strong construction activity has resulted in steady expansion of the local rental universe in recent years. In spite of the fact that Fredericton matched the lowest vacancy rate in the province last year, the increase in supply from the significant gains in apartment construction activity during the second half of 2010 is likely to exert upward pressure on the local vacancy rate. Expect the local vacancy rate to be between 3.0 and 3.4 per cent in 2011. A further moderate increase is anticipated in 2012.

In each of New Brunswick's three major urban areas, expect the increase in the average rent for a two-bedroom unit to range between two and three per cent in both 2011 and 2012.

Forecast Summary Saint John CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,166	1,986	1,751	1,600	-8.6	1,525	-4.7
MLS® New Listings	3,621	4,289	3,888	4,100	5.5	3,750	-8.5
MLS® Average Price ($)	158,117	171,027	171,104	174,000	1.7	176,500	1.4
New Home Market							
Starts:							
Single-Detached	488	369	345	240	-30.4	220	-8.3
Multiples	344	290	308	160	-48.1	140	-12.5
Starts - Total	832	659	653	400	-38.7	360	-10.0
Average Price ($):							
Single-Detached	247,921	282,652	277,325	275,000	-0.8	290,000	5.5
Median Price ($):							
Single-Detached	244,900	251,000	265,000	250,000	-5.7	257,500	3.0
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	2.5	3.3	1.5	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.1	3.6	5.1	5.5	0.4	5.0	-0.5
Two-bedroom Average Rent (October) ($)	618	644	645	650	-	660	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	63,700	66,100	64,000	62,500	-2.3	62,000	-0.8
Employment Growth (%)	-1.5	3.8	-3.2	-2.3	-	-0.8	-
Unemployment rate (%)	6.2	5.8	7.6	6.0	-	5.8	-
Net Migration (N.B.)	1,225	2,040	2,646	2,000	-24.4	2,075	3.8

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Moncton CMA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,663	2,386	2,402	2,350	-2.2	2,250	-4.3
MLS® New Listings	4,590	4,195	4,127	4,200	1.8	4,000	-4.8
MLS® Average Price ($)	143,173	150,135	152,251	157,500	3.4	160,500	1.9
New Home Market							
Starts:							
Single-Detached	566	430	462	360	-22.1	340	-5.6
Multiples	793	543	938	800	-14.7	670	-16.3
Starts - Total	1,359	973	1,400	1,160	-17.1	1,010	-12.9
Average Price ($):							
Single-Detached	217,173	226,921	257,320	262,500	2.0	268,000	2.1
Median Price ($):							
Single-Detached	199,900	209,900	239,000	242,000	1.3	246,000	1.7
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	2.5	3.3	1.5	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	2.4	3.8	4.2	4.8	0.6	5.0	0.2
Two-bedroom Average Rent (October) ($)	656	675	691	710	-	725	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	72,600	72,700	70,900	70,500	-0.6	71,500	1.4
Employment Growth (%)	4.8	0.1	-2.5	-0.6	-	1.4	-
Unemployment rate (%)	5.4	6.2	7.0	6.2	-	6.0	-
Net Migration (N.B.)	1,225	2,040	2,646	2,000	-24.4	2,075	3.8

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NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Fredericton CA Fall 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	2,160	2,166	2,086	2,100	0.7	2,025	-3.6
MLS® New Listings	4,751	4,406	4,461	4,400	-1.4	4,250	-3.4
MLS® Average Price ($)	152,268	159,219	165,175	172,000	4.1	175,500	2.0
New Home Market							
Starts:							
Single-Detached	475	403	370	320	-13.5	300	-6.3
Multiples	223	352	324	350	8.0	260	-25.7
Starts - Total	698	755	694	670	-3.5	560	-16.4
Average Price ($):							
Single-Detached	225,002	245,269	245,486	250,000	1.8	265,000	6.0
Median Price ($):							
Single-Detached	219,000	239,000	239,000	239,000	0.0	245,000	2.5
New Housing Price Index (% chg) (Saint John-Moncton-Fredericton)	2.5	3.3	1.5	0.8	-	1.0	-
Rental Market							
October Vacancy Rate (%)	4.3	2.3	2.6	3.2	0.6	3.5	0.3
Two-bedroom Average Rent (October) ($)	697	719	734	750	-	765	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	49,925	52,425	53,150	52,000	-2.2	51,500	-1.0
Employment Growth (%)	0.0	5.0	1.4	-2.2	-	-1.0	-
Unemployment rate (%)	4.6	5.5	5.5	6.1	-	6.0	-
Net Migration (N.B.)	1,225	2,040	2,646	2,000	-24.4	2,075	3.8

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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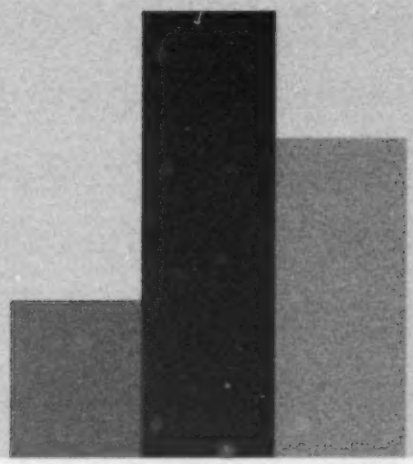

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